HART

HONOLULU AUTHORITY for RAPID TRANSPORTATION

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Krishniah N. Murthy
INTERIM EXECUTIVE DIRECTOR AND CEO

February 15, 2017

The Honorable Les Ihara, Jr.
State Senate
Hawaii State Capitol
415 South Beretania Street, Room 220
Honolulu, Hawaii 96813

Dear Senator Ihara:

In response to questions raised during our meeting on February 6, 2017, the Honolulu Authority for Rapid Transportation (HART) has worked with the City's Department of Budget and Fiscal Services in preparing the following:

1. **Provide a document that presents numbers and includes graphics to show how the current 90/10 split with the State will complete the construction of the rail project.**

   Response: The attached graphics summarize the financial details of the project. The graphics show the annual costs of construction, sources of funding (general excise tax (GET) revenue, grant revenues), debt proceeds, and debt service charges. The charts also include debt coverage ratios that indicate the ability to meet annual debt obligations.

   The first scenario shows the current projection with construction costs totaling $8.2 billion (excluding financing costs), GET revenues growing at 4.3% annually, the current 90%/10% split, and the GET surcharge extending to December 31, 2047. It further assumes the interest rate on the debt ranges from 3% to 4.5% and all debt matures near the end of the tax extension. This projection demonstrates the Plan is fiscally self-sufficient, such as:

   - *Ability to Pay Debt Obligations:* The ongoing GET revenue source after construction in FY 2027 (green dashed line) is growing in excess of the annual debt service payments (interest charges depicted by black bars and principal payments in shades of yellow bars).

   - *Ability to Absorb Projection Deviations:* The annual debt coverage ratio, which is derived by dividing annual GET revenue by annual debt service, shows adequate revenues in excess of debt service, even in the early years after construction where the gap between GET revenues and debt costs is the narrowest. The debt coverage ratio in FY 2027 is a strong 1.59, meaning this projection could withstand major deviations and still cover the debt payment.

   - *Flexibility to Change Debt Maturities:* The projection could allow for shortening the maturity of the debt issues if GET revenues are as projected by reducing the number of years of borrowing. This flexibility could reduce the total interest costs of the project by potentially as much as $0.6 billion. Conversely, if GET revenues are lower, the large revenue balances in the later years could provide the ability to develop funding strategies to meet debt obligations in earlier years.

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As part of the updated Financial Plan, a stress test risk analysis will be required by the Federal Transit Administration (FTA). This analysis will show the impact if changes to the current projects occur. The FTA's financial team will assess the financial sustainability of the updated Financial Plan relative to many financial risks facing the Project. The second scenario stress tests the current projection by decreasing the GET growth rate to 3.0% and increasing construction costs by 10% to determine the fiscal sustainability of the plan. The bottom scenarios shows that the difference between GET receipts and debt service payments narrows considerably due to lower annual GET receipts and borrowing increases to offset the increased capital needs and lower revenue sources during construction. However, GET is in excess of debt obligations in every year after construction and therefore the 90%/10% split even when stressed meets FTA requirements and remains fiscally self-sufficient.

2. **If the State Legislature agrees to amend payment to the counties from a quarterly to a monthly basis, what is the potential loss of interest income to the State if GET excise collections are transferred monthly?**

   Response: The State current average target rate of return on treasury investments is 0.7%. The potential loss of interest earnings to the State at this target rate would be approximately $2 million. However, the amount of savings to the Project is approximately $11 million because interest rates will be much higher than the State's target return. Debt financing interest rates are projected to range from 3.0% to 4.5%.

We would like to meet with you to discuss in detail the specifics of these projections. Thank you for this opportunity to provide this information.

Very truly yours,

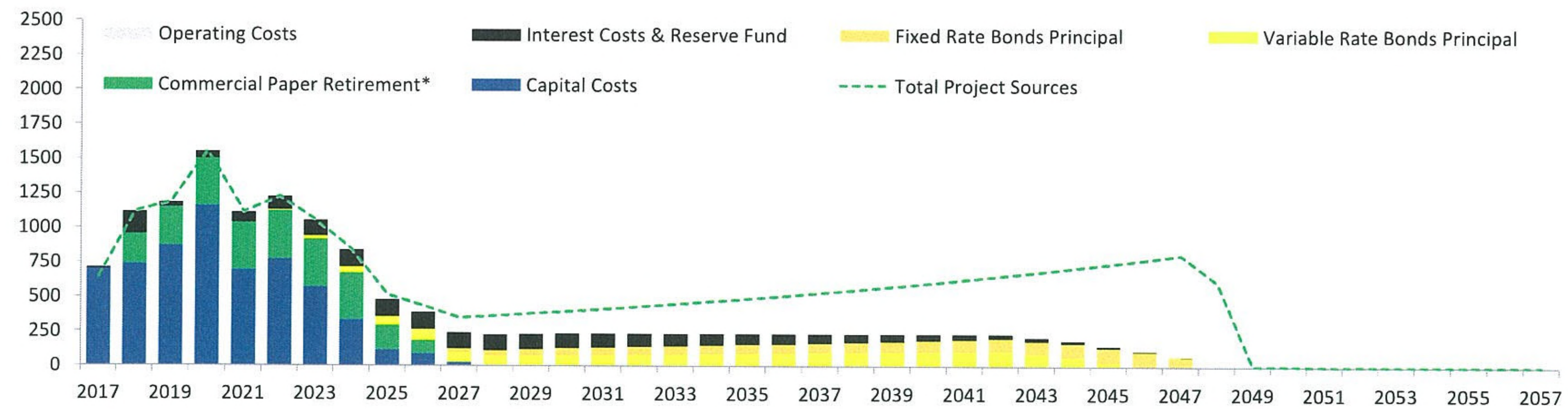
Krishniah N. Murthy
Interim Executive Director and CEO

Attachment

cc: HART Board of Directors
All Councilmembers
Mr. Roy K. Amemiya, Jr., Managing Director
Mr. Gary Kurokawa, Deputy Director
Department of Budget and Fiscal Services
Office of the City Clerk

1. 90% / 10% share; GET to 12/31/2047; 4.3% GET Growth Rate

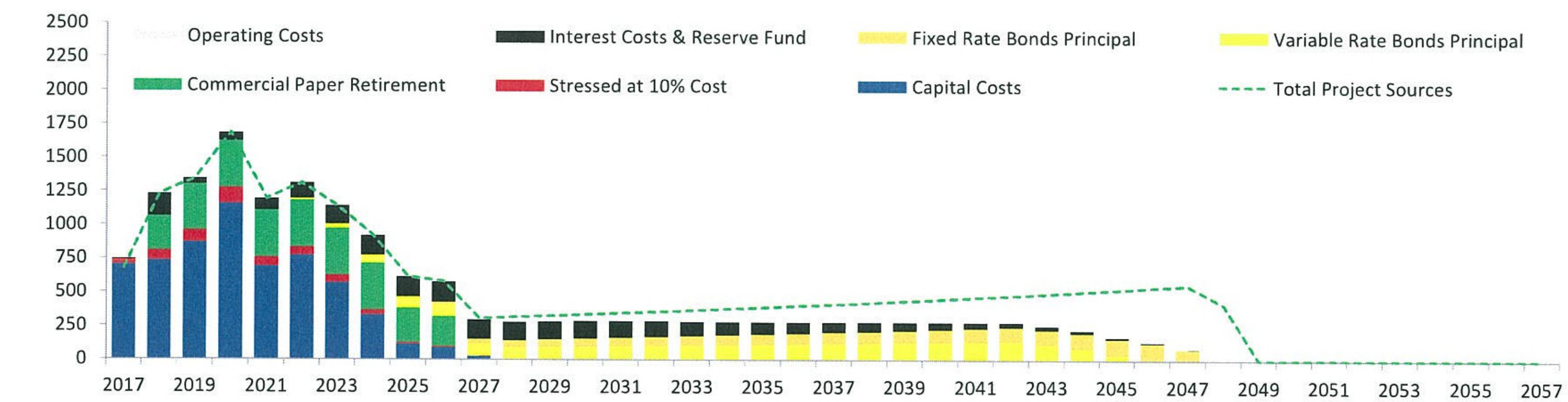
Long Term Debt: $3.4 billion **Interest: $2.2 billion**



	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
GET Revenue	$348	$363	$379	$395	$412	$430	$448	$467	$487	$508	$530	$553	$577	$602	$628	$655	$683	$712	$743	$775	$808	$608
Debt Service	$219	$230	$234	$237	$237	$237	$237	$237	$237	$237	$237	$237	$237	$237	$237	$237	$213	$191	$151	$119	$74	$0
Coverage Ratio (GET/Debt Svs)	1.59	1.58	1.62	1.66	1.74	1.81	1.89	1.97	2.05	2.14	2.23	2.33	2.43	2.53	2.64	2.76	3.21	3.73	4.93	6.52	10.88	

2. 90% / 10% share; GET to 12/31/2047; STRESSED at 3% GET Growth and 10% Project Cost Increase

Long Term Debt: $4.0 billion **Interest: $2.6 billion**



	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
GET Revenue	$308	$317	$327	$337	$347	$357	$368	$379	$390	$402	$414	$426	$439	$452	$466	$480	$494	$509	$524	$540	$556	$414
Debt Service	$269	$281	$284	$288	$288	$288	$283	$282	$282	$282	$282	$282	$282	$282	$282	$282	$254	$222	$173	$135	$84	$0
Coverage Ratio (GET/Debt Svs)	1.15	1.13	1.15	1.17	1.20	1.24	1.30	1.34	1.38	1.42	1.47	1.51	1.56	1.60	1.65	1.70	1.94	2.29	3.03	3.99	6.64	